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May 5, 1983

Letter Report P-317

Honorable Art Agnos
Chairman, and Members of the
Joint Legislative Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

We have reviewed the Department of Health Services' (department) program to recover Medi-Cal payments made to beneficiaries for work-related injuries. We reviewed the department's contract with Lien Services of Northern California and answered specific questions regarding the availability of Medi-Cal data used by Lien Services to recover monies from liable third parties. This is a follow-up to our February 1981 report, "New Statutes, Policies, and Procedures Could Increase Medi-Cal Recoveries By At Least \$4.3 Million Annually" (Report P-011).

Information on Medi-Cal beneficiary history has been produced by the State's two Medi-Cal fiscal intermediaries. However, the data are not currently in a form that is easily accessible or retrievable by the department or its contractor, Lien Services of Northern California. Data from the department's previous fiscal intermediary, Medi-Cal Intermediary Operations, are stored in a warehouse in Sacramento, but the records are not organized in a form that will permit retrieval. The department plans to acquire additional staff and equipment to organize these records at a cost of \$515,000. The records were previously maintained by Medi-Cal Intermediary Operations under a \$2 million contract. The department estimates that this organization effort will take approximately three to five months. However, because of the State's current budget constraints and hiring freeze, this estimate may be optimistic. Options for expediting this process include speedy approval of departmental requests or the use of an outside contractor.

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Data from the department's current fiscal intermediary, Computer Sciences Corporation (CSC), are available to the State; however, after 15 months, the data are not in a format that is useable for recovery purposes. Under the provisions of the contract with the CSC, Medi-Cal beneficiary history is only available for direct retrieval for 15 months. Then this information is stored as individual claims. No other reports produced by the CSC provide the data necessary for recovery purposes. The department has not determined what actions or costs will be necessary to produce CSC beneficiary data older than 15 months for use in recovering Medi-Cal payments owed the State.

Finally, the department maintains Medi-Cal data by beneficiary identification number, but the department did not require the file to be alphabetized by last name before 1978. Our review of beneficiary files produced prior to 1978 indicated that many recipients were listed by first name. In 1971, the Director of the Department of Health Care Services, in conjunction with a data processing representative of the Department of Social Services, developed the file format.

BACKGROUND

In November 1965, the Legislature created the California Medical Assistance Program, Medi-Cal. This program, authorized by Title XIX of the Social Security Act and Section 14000 et seq. of the Welfare and Institutions Code, pays for a variety of health-care services. The State and the federal government jointly fund this program.

Since the Medi-Cal program was implemented in 1966, a nongovernmental fiscal intermediary, under contract to the State, has processed Medi-Cal claims and performed various payment activities. Medi-Cal Intermediary Operations held the first fiscal intermediary contract. With the Legislature's concurrence, the department decided in 1976 to seek competitive bids for a new fiscal intermediary system. This effort resulted in the State's awarding the current contract to the Computer Sciences Corporation.

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In 1981, the Auditor General reported on the department's policies and procedures for recovering Medi-Cal overpayments. The report concluded that the Medi-Cal program could increase recoveries by using data on work-related injuries to identify Medi-Cal beneficiaries who may have received medical payments from third parties, such as workers' compensation insurance. The department acted upon our recommendations and, through its Casualty/Workers' Compensation Section, began identifying Medi-Cal beneficiaries who had suffered work-related injuries.

The Legislature has recognized that the department may not always identify instances of third party liability and that there are private nongovernmental sources of claim information that could be used for Medi-Cal recoveries. Consequently, the Legislature enacted Chapter 102, Statutes of 1981 (Assembly Bill 251), requiring the department to contract with private organizations having access to information that would aid in the collection of monies owed to the State for Medi-Cal services.

As a result of this legislation, the department contracted with Lien Services of Northern California in July 1982 to recover Medi-Cal payments owed to the State by liable third parties for work-related injuries. The contractor is responsible for the following: (1) using the contractor's own data banks to develop information on potential Medi-Cal recovery cases; (2) determining whether the injured party identified had received Medi-Cal services; (3) matching the individuals identified to the department's Casualty/Workers' Compensation Section records; and (4) establishing liens against identified liable third parties at the Workers' Compensation Appeals Board. The contractor's fee is 20 percent of the net amount recovered from the liens. According to the contract, the contractor planned to identify an estimated \$6 million in payments owed the State during its 24-month contract.

As of February 1983, the contractor stated that it had identified 23,081 potential cases for recovery in northern California; for 15,307 of these cases that are still in litigation, the contractor is preparing liens to be filed with the Workers' Compensation Appeals Board. The dollar amount

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associated with these cases cannot be determined and is not specified in the lien. The contractor has notified the State that a number of problems hinder the collection efforts. The primary obstacle facing the contractor is its inability to get necessary Medi-Cal claims information from Medi-Cal Intermediary Operations and the Computer Sciences Corporation. Without this information, the contractor cannot correctly determine the dollar amounts of the liens to be filed. Because the contractor files liens with unspecified amounts, it is unable to recover funds owed to the State until it accurately documents the amounts paid to the beneficiary.

In addition to the contractor's needing the information, the State also requires claims information, as is attested to in a memorandum from the Chief of the department's Recovery Branch to the Acting Deputy Director of the Fiscal Intermediary Management Division. The memorandum estimates that the State could recover approximately \$8 million in Medi-Cal overpayments if this claims information were available.

SCOPE AND METHODOLOGY

The purpose of this analysis was to answer questions concerning the Medi-Cal claims information used to recover Medi-Cal payments from liable third parties. To answer these questions, we reviewed applicable state laws and the contract between the department and Lien Services of Northern California. We also interviewed staff from the Department of Health Services, the Computer Sciences Corporation, and Lien Services of Northern California. We visited the location of existing Medi-Cal claims information, and we reviewed the plan to make this information accessible. We also reviewed correspondence between the department and the Computer Sciences Corporation concerning contract provisions to make Medi-Cal information accessible. We also reviewed Medi-Cal eligibility files for 1975 through 1977, which include the years specified in the audit request.

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ANALYSIS

The request asked that we answer seven questions regarding information used in recovering Medi-Cal payments owed the State. These questions concern the records of Medi-Cal Intermediary Operations and the Computer Sciences Corporation, and information prepared by the Department of Health Services (department). In the following sections, we address the questions pertaining to each of these areas.

The Medi-Cal Intermediary Operations Records

We were asked to confirm the location of Medi-Cal Intermediary Operations (MIO) records, to review any plans for making these records accessible, and to determine whether options exist for expediting the use of these records.

The department obtained the MIO records and stored them in Sacramento when the contract for maintaining these records was not renewed at the end of December 1982. As of February 1983, these records were not organized in a way that would allow their retrieval. Before December 1982, the department had contracted annually with the MIO to be custodian of all Medi-Cal records relating to MIO's activity as fiscal intermediary from February 19, 1966, to December 31, 1980. This contract totaled \$2 million for 1982. In November 1982, the MIO notified the department that the MIO would not renew its contract. The department, through a survey of users of MIO data, determined that the department would continue to require MIO records for Medi-Cal recovery, audit, and legal purposes. Therefore, the department packaged and transported the 6,000 cubic feet of MIO records from various MIO locations to a warehouse on North "C" Street in Sacramento.

As of February 1983, the records were still packaged and stored in Sacramento; they are inaccessible and will remain so until they are appropriately organized. Because these records are not organized, department officials have stated that they will not allow the use of any of this MIO information until all of it has been made available for retrieval.

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The department's Program Support Branch has developed a system to make the MIO records accessible. To implement this system, the department will assess storage needs for the records. The department also anticipates hiring 20 new staff members to organize and make the records useable. According to the Chief of the Program Support Branch, the annual cost of maintaining this system will be approximately \$515,000. The department is preparing a budget change proposal requesting that the needed \$515,000 be transferred to department support funds from department local assistance funds, where \$2 million had been allocated for the renewal of the MIO contract. Staff in the Program Support Branch estimate that MIO records will be available in three to five months if the budget change proposal is approved expeditiously. This estimate, however, is based on the department's receiving exemptions from the current hiring and equipment freeze. The Chief of the Program Support Branch noted that any action that expedites the approval process will expedite the availability of MIO records. An alternative option that the department has considered is employing an outside contractor to maintain the MIO records.

The Computer Sciences
Corporation Records

In our review of the Computer Sciences Corporation (CSC) records, we were asked to confirm whether contractual provisions exist for retrieving beneficiary history data older than 15 months, whether this information might be available from some other source, and what options and costs would be involved in making this information available.

Beneficiary history data are not available from the CSC in any useable form other than the active history files that the CSC maintains for 15 months. Data more than 15 months old are available only in the form of provider history or as individual claims. Neither of these formats is useable for recovering Medi-Cal payments owed the State from liable third parties because these formats do not contain the detailed information needed to document amounts paid to the beneficiary. Detailed claim histories of beneficiaries are necessary because liens filed with the Workers' Compensation Appeals Board to recover Medi-Cal payments owed the State must show the exact services and the total costs for which the State should be reimbursed.

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The State and the CSC have disagreed since February 1981 as to who is responsible for providing useable data beyond 15 months. In its contract with the CSC, the State requires the CSC to preserve and make available all pertinent records. This contract requires the CSC to maintain an active history file for 15 months and to maintain access to older data. The CSC contends that its current process of purging the active history file of claim information older than 15 months and storing the data as individual claims satisfies the contractual requirements. The State, however, believes that the CSC should maintain the data in a useable form that allows access to beneficiary history. According to CSC staff, meeting this requirement would entail expensive processing changes; consequently, the CSC is unwilling to provide such services without additional funding.

The department has not determined what actions or costs will be necessary to make CSC beneficiary history data older than 15 months available. According to the Acting Deputy Director of the Fiscal Intermediary Management Division (FIMD), two options exist for making CSC records available. The first option is to require that the CSC provide, as part of its contractual commitment, the needed data in a useable format. The second option is for the department and the CSC to negotiate a change order by which the CSC would revise its data processing system to provide the necessary data on beneficiary history.

FIMD staff told us that they are drafting a request for an opinion from the department's legal division; the results of this opinion will determine which of the two options to pursue. FIMD staff anticipate that the legal research for the opinion will require at least one month.

If the legal opinion states that the CSC is contractually responsible for providing the needed records, the department will require the CSC to do so. If the CSC disagrees, it may use the contract dispute process to appeal the department's decision.

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The department could, nevertheless, direct the CSC to provide the history data while awaiting the outcome of the contract dispute process. According to CSC staff, the design, development, and implementation of the change to the system would require 60 to 90 days. The staff noted, however, that the State would be liable for paying the costs of the change if the dispute is resolved in favor of the CSC. CSC staff believe that this particular change to the system will cost more than \$50,000 and consequently, in accordance with the contract, require approval by the departments of Finance and General Services. Therefore, the CSC might not act on the change until the department guarantees that the State will approve funding.

However, if the legal opinion finds that a change order is necessary, the State will begin negotiations with the CSC. Negotiating and implementing the change order would require from 9 to 12 months, assuming that this change order receives a high priority. The department and the CSC were unable to give us any detailed cost information regarding the change order.

FIMD staff suggested that a third option might be employed. They explained that under the next fiscal intermediary contract (planned for 1984), the fiscal intermediary will be responsible for providing all beneficiary history information dating back to the beginning of the current contract. FIMD staff believe it might be more economical to disregard pursuing the two options discussed above if they prove to be too costly or time consuming and instead wait until the new contract becomes effective at the end of 1984.

Department of Health Services Data

We were asked to confirm whether the recipient eligibility files for 1976 and 1977 were alphabetized according to recipients' first names; if the file was alphabetized by first name, we were also asked to report who was responsible for this process.

The department's recipient eligibility files for 1976 and 1977 could appear to be alphabetized by first names. In 1971, the Director of the Department of Health Care Services in conjunction with a data processing representative of the Department of Social Services developed the eligibility file

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format. County welfare departments were responsible for entering beneficiaries' names into the file. Since there were no standard procedures for entering names, some counties entered a beneficiary's first name first, while other counties entered a beneficiary's last name first. As a result, the alphabetized listing of beneficiaries for this period could appear to be arranged according to first names or last names, depending upon the section chosen for review.

Since 1978, according to staff in the department's Data Systems Branch, the process of entering recipients' names has been standardized for all counties; consequently, later file listings can be alphabetized by last name. It should be noted that the department uses only beneficiary identification numbers; therefore, the department has not experienced problems in using the pre-1978 Recipient Eligibility History File. Staff of the Data Systems Branch explained that the department also sent users a copy of the file arranged by social security number.

CONCLUSION

Beneficiary history data needed to recover Medi-Cal payments owed the State are not available in a useable form either to Lien Services of Northern California or to the State. Records produced by Medi-Cal Intermediary Operations will not be available until the Department of Health Services has organized them for retrieval. Computer Sciences Corporation records older than 15 months will not be available in a useable form until the State and the CSC resolve contractual disagreements.

The Recipient Eligibility History File is arranged by beneficiary identification number. This file format, designed in 1971 by the Director of the Department of Health Care Services and a data processing representative of the Department of Social Services, did not require counties to enter recipients' names in any specified manner. As a result, the alphabetized file could appear to be arranged by first name first. Nevertheless, the department and users have not expressed concern over the arrangement of the pre-1978 file.

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RECOMMENDATION

To facilitate Lien Services of Northern California's efforts to recover Medi-Cal payments owed the State and to enable state agencies in their recovery work, the Department of Health Services should develop plans for making the Medi-Cal Intermediary Operations data and the Computer Sciences Corporation data available. Specifically, the department should expeditiously implement its plan to make MIO records available; these efforts would be aided by speedy approvals of requests for funding and exemptions from the Governor's freeze on hiring and equipment. In addition, the department should determine which option it will pursue for the retrieval of the CSC beneficiary history records that are older than 15 months.

We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specifically contained in the audit request.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Audit Completion Date: March 14, 1983

Staff: Richard C. Tracy, Audit Manager
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Attachment: Responses to the Auditor General's Report
Health and Welfare Agency
Department of Health Services



HEALTH and WELFARE AGENCY

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March 11, 1983

Mr. Thomas Hayes
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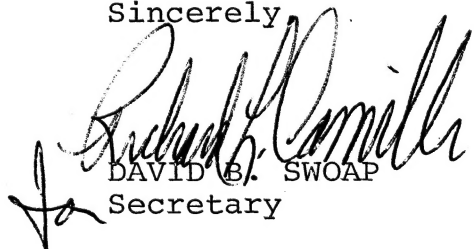
Dear Mr. Hayes:

Thank you for the opportunity to review your Letter Report 317 concerning the Department of Health Services' program to recover Medi-Cal payments made to beneficiaries on work related injuries.

We have quickly read the report and find no discrepancies and are in agreement with the recommendations. It is my understanding that the Department is submitting a Section 28 letter to establish positions using existing funds to begin this work. Naturally, this Agency will process and approve the freeze exemption requests for this activity.

Thank you for your helpful report. We appreciate the opportunity of working with you on this and future projects.

Sincerely,


DAVID B. SWOAP
Secretary

DEPARTMENT OF HEALTH SERVICES

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March 11, 1983

Mr. Thomas W. Hayes
Auditor General
Office of the Auditor General
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Dear Mr. Hayes:

This concerns your letter report P317 "Department of Health Services' Third Party Recovery Program, March, 1983".

We find that the letter report is factual and is presented objectively. We also agree with your recommendation as presented.

A Section 28 request has been prepared for the reallocation of existing local assistance funds so that 20.5 FTE staff may be employed to operate the Medi-Cal Intermediary Operations (MIO) related file system. These local assistance funds were previously directed toward the MIO contract.

Due to the time delays inherent in this process and in the process of advertising, hiring, and training staff to do the work, we believe that it will be three to five months before records can be made available. We note that this problem was brought about by the abrupt notice of intent to terminate by MIO.

The issue of patient histories for services aged over 15 months is more difficult to solve. Interpretation of contract language is the focus. The Department believes that Computer Sciences Corporation (CSC) must provide those records in a usable form; CSC disagrees with the Department's interpretation of the contract provision and does not provide them. Department counsel are being involved in this matter at this time, but no immediate resolution of the problem is seen for the foreseeable future.

Regarding the recipient eligibility file system, it is my understanding that this problem did occur but that the need for information was resolved by use of data provided in social security number format.

Thank you for this draft report on program functions. Your staff have done an excellent job.

Sincerely,


William D. Dawson
Interim Director